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SOCIAL EVOLUTION DURING WAR AND REVOLUTION

THE problem of social evolution during war and revolution is a different one in the case of each of the several belligerents, for the social process which took place during the war was conditioned by the social structure of the nation when it entered the war. It is obvious that the problems of an agrarian state would be different from those of an industrial state. Moreover, the data for such a study must necessarily include the character of the nation's industrial development, with special reference to the importance of large-scale and small-scale enterprises. Though for this reason it is impossible to draw general conclusions applicable to all nations, nevertheless we discover such similarity in the effects of the war wherever there is a capitalistic organization of production that, to a certain degree, we may attribute general validity to the principles observed in an individual case. Thus the attempt may be made to investigate the altered social conditions which have been brought about in Germany by changes in the economic system during war and revolution.

It is well to take as the starting point a consideration of the basic changes in the economic life of the community, for a discussion of social evolution would of necessity be incomplete and inadequate were it merely to observe the changes on the surface without delving deeper into the causes of social phenomena. Only the intuitive power of artistic vision can create a picture of the world in which economic and historic causes and their social effects are woven together into a convincing whole, a picture such as one finds in the works of Balzac portraying the *ancien régime* in France—dying, feudal, legitimate, aristocratic France—in the process of melting together with the middle classes, which, awakened by the Revolution, had attained a new position of social importance.

It was not by chance that Marx counted Balzac amongst his favorite writers, along with Cervantes and Shakespeare, who

like Balzac depicted society as a whole. Though it is scientific in method, Karl Marx's *Kapital* is an epopee of middle-class society. He too endeavors to conceive the totality of existing society, and even more, he strives to unveil the totality of future times.

How did Marx view this evolution? He pointed out the great inner contradiction in capitalistic society, an inner contradiction which is by its nature economic but becomes social. The growth of productive forces, the possibility of increasing production, will not benefit all classes equally. On the contrary, because the capitalist can improve only the organization of production and increase the output of mass production through division of labor, while on the other hand he is unable to control the laws of the market to which he is subjected, capitalistic production will from time to time push into a vacuum. Production will be reduced, unemployment will increase, goods will remain unmarketable, and only after the extinction of numberless existences, only after a forced lull in production, will the play begin anew. Thus one industrial cycle will follow upon another, each more severe and more fatal than its predecessor. The working class, however, is not an amorphous mass, devoid of will, ready to bow in silent submission to the economic law. It is used in production but at the same time it is filled with a revolutionary power. The productive process unites the workers in large industries and thus creates a potential foundation for their organization. The more they become a mere accessory of the productive process by reason of the mechanism of the market, the more they awaken to class consciousness and the more revolutionary they grow—which is to say they develop out of themselves the idea of a new society. Hence, capitalism is not able to master either the economic or the psychological problems to which it gives birth. In a universal catastrophe resulting from an immense financial crisis, productive capital will be transferred from the hands of the capitalists into the possession of all. In this fashion, according to Karl Marx, the change will be brought about from capitalistic to socialistic methods of production and from existing society to a classless society in which everybody works and the

social product is divided amongst all in harmony with the principle of justice.

This picture, as was subsequently proved, had been misdrawn. It represented the early capitalism of Marx's own time. English capitalism took on a different aspect, and the development of Germany was governed by still other forces. In Germany, as in England, capitalism is based upon scientific and historic factors. The historic factors in English capitalism; namely, England's insular position and her central transportation facilities on the world's routes of commerce, resulting in the development of her transportation and banking system, pointed toward free trade and manufacturing for exportation. In successful political struggles the English middle class overcame the opposition of the great landowners. England's possession of rich colonial territories facilitated this victory by enabling the Tories to accept the new situation without losing in either political or economic power.

German industry grew no less rapidly but was compelled to accommodate itself to the existence of the feudal powers which had suppressed the revolution of 1848 and, under the leadership of Prussia, had erected the Empire. In Germany, industry had been the spokesman for liberal ideas, and in Germany also originated the theory that a protective tariff at best was justifiable only from an educational viewpoint. And yet in precisely this respect German development was brought about with careful regard for agrarian interests. Neither social nor political consequences were drawn from the industrial system. Alarmed by a menacing social condition, employers sought the protection of the feudal powers, all the more readily since the latter had built up an efficient mechanism of government. Moreover, several other factors tended to diminish the explosive power of the new social idea.

Capitalism, despite the conditions of free competition originally existing, was able to organize itself gradually. The tendency toward organization, not only on the part of labor but also on the part of capital and production, gained ground and became international in scope because the expansion of the productive forces lagged behind the increase of population

during the period beginning in the 'nineties. This tendency toward organization was supported and strengthened in Germany by the protective tariff. Furthermore, while production organized itself in cartels and formed ever larger combinations, gigantic enterprises and associations resembling trusts, it was confronted by alliances of the workers and employees in trade unions. The trade unions, however, comprised only twenty per cent of all the workers (the total membership numbered about two and a half millions) before the war, but as a matter of fact they really had the power to turn the scales. The organizations of employees and civil servants were on the threshold of a rapid development. The middle classes and the agrarians were easily organized. Such was the grouping of social forces. Germany was no longer a country of free competition and of free social movement.

By degrees the classes solidified into firm bodies and the above-mentioned organizations, based upon interests, created a balance of power. The *Tarifvertrag*, a contract between the organizations of employers and the trade unions, was resorted to more and more frequently before the war for the adjustment of interests and came to be the symbol of social conditions inasmuch as it recognized the existence of class conflicts but at the same time mitigated them. In the crisis of 1900 one may observe new traits not found in the devastating breakdowns of earlier decades. It might better be called a depression. The tendency toward organization in the industrial sphere, that is toward the organization of the market for products and for labor, was supported by the tendency which worked against concentration in economic and social respects.

Economic concentration, however, could not be denied. Large fortunes were of quickest growth, but the concentration of capital was paralleled by its diffusion. Industrial securities, mortgages and the bonds issued by the government, the states and the cities found an ever larger market. The rise of a *rentier* class, a class of middling and small investors, characterized German social life, particularly in central, western and southern Germany. These small investors constituted the social sphere from which were recruited the lower and middle

ranks of the civil service, the more highly paid private employees, the elementary and high school teachers. The German middle class formed a large social aggregate which cannot be counted as a part of the employer-group, and yet was not proletarian. It may be estimated that before the war at least five million men and women were included in this class, which by such a calculation would be two-fifths the size of the proletariat. Thus originated a group of small capitalists subjected as consumers to the price policy of cartels and trusts but nevertheless supporting the capitalist order because part of their income was linked up with it.

This economic fact had an important social consequence. As the group of employees and civil servants developed, the proletariat ceased to be the only class which was growing, or even the class which was growing most rapidly. Regardless of the fact that it was not a united class, but torn through the differentiation of skilled and unskilled workers, it now found itself surrounded by a circle of small middle groups—foremen, post-office clerks, the lower grades of salaried employees, steady workers in public enterprises. The whole complicated hierarchy can be understood and comprehended only by those who lived in it, but the order of rank within the hierarchy was recognized by all who were included in it. And this very fact of the recognition of class distinctions tended to support and strengthen the system.

The whole middle class, a highly differentiated world in itself, confronted the proletarians. The employer or capitalist was the economic opponent of the worker but did not represent a social class into which the worker could force his way. Consequently, all talents which were not devoted to politics or to the trade-union movement were crowded together into the groups forming the lower middle class. Thus by a thousand channels the intellectual forces of the proletarians were poured into a class which was heterogeneous within itself and hostile to them. It was precisely the most capable members of the proletariat who were estranged from their own class. The ascent into the sphere of "society" lasted, if it happened at all, for generations, and ended but in bourgeois circles. The

broad world of industrial and feudal magnates, the world of the officers and the nobility, remained exclusive. There was no path leading up from the proletariat to the governing classes. Thus the proletariat in Germany was perhaps well disciplined and educated but it was confined to and satisfied with a narrow sphere which offered little prospect for advancement. No big or independent trait characterized its life. Its revolutionary force was diverted.

If an exaggeration may be permitted, one may say that the proletariat as a whole conformed to the ideas and modes of life of the lower middle classes and that the same tendency was evinced even in its fighting organization, the trade union. This situation was dependent in part upon the political constitution. The basic idea of democracy, and therewith the possibility for the workers to enter the ranks of the really governing classes, remained foreign to Germany. The middle-class ideal remained the workers' personal goal in life. One should not be led astray by the fact that in his songs and in his fighting slogans the German workingman seemed to demand the whole of society. Capitalism was becoming stable. Both the danger of economic crisis and the danger of social catastrophe were substantially reduced.

The war disturbed the development of an industrial capitalistic society which was gradually calming down. Economic and social development was diverted into different channels. One may say indeed that the war in itself brought about a social upheaval. And there were no theories or ideas which accounted for this upheaval; theories and ideas supplied only the forms for the expression of the unrest and of what was new. Neither is the war, in my opinion, to be conceived as an event following the main current of capitalistic development, excepting where capitalism had united with the feudal classes and become subordinate to a military power.¹ To be sure, once it breaks out, war is bound to exhibit certain features in an industrial country; every war in an industrial country must

¹ Compare with this the author's paper "A Sociology of the World War" in the *Archiv für Sozialwissenschaft und Sozialpolitik*.

become an industrial war, for every country will, if it becomes a belligerent, go into the war with all the forces at its command. Now for an industrial country it is essential in wartime to exert greater strength than would be supplied by normal production, even if foreign imports, which mean indebtedness, are left out of account.

An agricultural country can conduct a war only with its yearly products, *i. e.* with its crops. The stock of industrial goods in the country and the size of the crop will be decisive as regards potential strength. This cannot be changed substantially from day to day wherever agriculture is the main source of production. Hence agrarian countries are quickly exhausted in war. This fact explains the shortness of breath manifested by belligerent countries in past times. Armies were equipped during the winter and remained in the field scarcely half a year. Warfare meant chiefly manœuvring, as there was no army which had at its disposal the weapons, munitions *etc.*, necessary for intensive warfare.

An industrial country, on the other hand, may wage war the year round, since it is able to mobilize accumulated wealth. Moreover it possesses a productive machinery which, unlike the productive forces of an agrarian state, can be immediately adapted, as regards the direction and the intensity of production, to the needs of the war. Hence ensue the following consequences: (1) The development of war industries. Industries which under normal circumstances would turn out productive goods (particularly machines and building) will now produce munitions *etc.* Such being the case, the productive capital of the country cannot be kept intact, much less can it be enlarged. Existing equipment has to suffice. The same statement holds true with regard to the production of a great many consumption goods, such as textiles and leather products. These will be produced for the armies instead of for private consumption. (2) The utilization of the existing stock of productive capital and consumers' goods for war purposes. The economic pressure of war may even go so far as to strip individual households of carpets and other textile furnishings which may be used in the manufacture of substitutes. Both of these condi-

tions are scarcely possible in an agricultural country. (3) Finally, a third effect of war upon industry is the taking up of loans in neutral countries or the export of capital to such countries and the utilization of the equivalent for war purposes. This process cannot occur in an agrarian country except on a much smaller scale, because a predominantly agricultural community cannot get credit as easily as an industrial country and because the former is not yet centralized in the organization of its economic life. For the same reason the government of an agrarian state will not be able to control private economic interests as accurately or effectively. The credit system, above all, will be defenceless. Whereas, in a country like Germany, the central banking system will furnish capital to the government instead of receiving capital from the government as would be expected by the advocates of a mere historic materialism.

Just as in the dimensions of its industrial organization for war an industrial state will far exceed the possibilities of an agricultural country, so also in its financial methods it will follow an entirely different path. In a highly developed industrial country it is utterly impossible to defray all the expenses of the war by cutting down incomes. An agricultural country, on the other hand, can pay the costs of its warlike preparations gradually out of the proceeds of taxation—if it enjoys no credit it cannot do otherwise—and it will conduct the war itself by means of contributions and requisitions. But the industrial country must originate new production, and it can do so successfully only if it entrusts the task to already existing or newly arisen enterprises. Parallel with this phenomenon there will be, as has already been indicated, a curtailment of private consumption as a result of the diversion of consumers' goods to the army.

Since it is necessary to resort to the production of capital goods and subsequently to their "melting down"—in order to compensate the rightful owners with legal tender—it is plainly impossible to restrict consumption by levying such high taxes that the full equivalent for the increased consumption can be realized. As the income of a country invariably consists of the sum total of consumers' goods and not of capital goods, it is

obvious that their equivalent cannot be obtained through the curtailment of incomes by means of taxation. Hence, legal tender will have to be substituted for consumers' goods where there is no new production of the latter. Thus the war producer will become the possessor of purchasing power in addition to that which already existed, and every war will in this way bring about inflation in any industrial system, even though the war may be financed in the most approved manner by subscriptions to loans. Be its tax laws ever so rigorous, no state escapes this necessity. Only the confiscation of capital and income can facilitate the conduct of war from the aspect of public finance. The destruction of values, however, is a fact which cannot be altered by financial expedients. In time of war, therefore, inflation will be brought about and will be accompanied by a shifting of prices due to the violent disordering and diversion of the ordinary channels for the circulation of goods.

Inflation will be inevitably connected with social changes, since the war will alter conditions in different branches of business and in different social classes as well. Considering the principal branches of business, one may observe: (a) Agriculture, which had steady business conditions. In agriculture, costs increased but little and military losses depleting the supply of labor were compensated by the employment of prisoners of war. Consequently, beginning with the first weeks of the war, agriculture accumulated capital and that in an inverse relation to the size of the farms. The value of the accumulated capital, to be sure, has been reduced in the meantime by the depreciation of the currency. (b) Industry, in so far as it was war industry, likewise accumulated capital. In the later years of the war, however, it was handicapped by the scarcity of raw materials and of coal as well as of workers. (c) "Peace" industry reorganized for the greater part into direct or indirect war industry. (d) What really suffered was commerce, especially the export trade and the wholesale business. It was restricted as regards all goods the distribution of which was placed under government control. The older, long-established wholesale trade was dislodged by the new "wild" trade con-

ducted by illegitimate intermediaries. The latter had, however, a legitimate function within the limits of capitalism, namely, to find the most solvent purchaser for the scanty supply of goods. The more rigorous the control exercised by the government, the greater became the earnings of the "illegitimate" trade and the greater the efforts to expand it.

The social effects proceeding from the economic conditions of the war might be summarized as follows:

(1) Concentration of capital. The smaller enterprises are "swallowed up" by the larger. Small savings are absorbed, that is to say, mortgages are repaid and the small investors exchange the proceeds for war bonds, the market rate of which is going down and the market value of which has a diminishing purchasing power. In this case Marx's prediction that under competitive conditions one capitalist kills a hundred small ones fails to hold true. The smaller accumulations of capital take the form of savings and as such are expropriated.

The economic conditions of war cause a dislocation of the economic centers of gravity. The economic importance of particular branches of business and even of whole territories is shifted. Thus, for example, the economic importance of East Prussia and West Prussia as well as of Bavaria increased extraordinarily during the war, because those territories, by reason of their surpluses, accumulated large capital stocks. Agricultural states won a monopolistic position which they had not hitherto possessed. The agricultural districts, therefore, rank with the munitions industry as monopolistic interests governing economic life in time of war.

(2) A similar development is to be found in the case of labor. In the first instance the labor market was favorable to the working class throughout the war. In spite of the existence of a military dictatorship during the war, in spite of the unremitting subjection of the entire population and its productive power to the purposes of the war, the intensified demand for labor gave the workingman a position of monopolistic power. Moreover, the legislation which was designed to increase the military power and to place at its disposal the entire force of labor (*e. g.* the compulsory service law) had to be

based upon this situation, and the indirect effect of such legislation was to enlarge the power of the workers and of their trade unions through the adjustment and factory committees. The complete absorption of the reserve army of workers did but accelerate this development. Thus the workers also gained a monopolistic position which enabled them, without resorting to strikes, to enforce their demands in matters of considerable importance. The social importance of the workers was enhanced, especially in comparison with that of the groups which had previously been considered as constituting the higher social classes, namely, civil servants of middle and lower rank, private employees *etc.* This leads to the third point.

(3) All the intermediate elements, the middle-class groups of various types described in an earlier portion of this article, have been wrecked through the war. Salaried employees obtained during the war only minimal wage increases. The civil servants, reduced in numbers, loaded with work, under-nourished and with insufficient increases of salary, soon lost all power of keeping to their accustomed level of consumption. As a result they felt themselves not only economically but at the same time socially degraded. Furthermore, the middle-class groups, being thus depressed in social status, could no longer be conceived of as the goal of the social aspirations of the working class. The small *rentiers* or investors—who constituted in Germany a broadly defined class possessing decisive cultural importance—were proletarianized. Inasmuch as their revenue was derived from mortgages, government securities and war loans, their incomes, although remaining unchanged in absolute amount, suffered considerable depreciation in value. All these groups will no longer be able to live in their accustomed style. The civil servants and salaried employees must change their mode of life and the *rentiers* must look for work. In proportion as they failed to make this readjustment successfully, they drew upon their saving and even sold personal belongings. This group was not a powerful social factor during the war. They worked, quite as a matter of course, and devoted themselves unreservedly for war purposes. Small increases in salaries provided a most inadequate compensation

for the increase of prices. Indeed the real income of these middle-class groups was substantially diminished.

Thus, toward the end of the war, the *nouveaux riches* were confronted by the *nouveaux pauvres*. This contrast was progressively accentuated with the continuation of the war.

If one considers these shiftings, these movements of capital and of income, from the viewpoint of money value; if one observes on the one hand the opulence born of war-time booms and on the other hand the growing pressure, one may be tempted to regard the situation as a fulfilment of the Marxian prediction, that is to say, the concentration of capital and the expropriation of the classes possessing only small means. This view, however, must be substantially corrected in one respect. The concentration of capital, manifesting itself in the large accumulated earnings and in the enhanced value of all existing capital goods, is not synonymous with the accumulation of larger stocks of capital goods in the hands of capitalists, for all capital stocks have deteriorated, are less fit for use and stand in need of repair. No mine, no factory, no farm, emerged from the war in a state of good repair. All required restoration. If industry and agriculture have been enriched in spite of this deterioration within themselves, the enrichment simply means the impoverishment of other large groups of people. Because accumulated wealth as a totality had been so much diminished, every person owning a machine, a house, or productive power in general, found himself in possession of a certain amount of monopolistic control. Furthermore, many persons were enriched in purchasing power as possessors of war loans, money or bank credits received in compensation for services rendered to the government for war purposes. This sort of wealth, however, consists merely of the claims of the nation against itself. It is merely abstract and has a tendency to diminish in purchasing power. It is capital only in so far as it represents potential command over labor, only in so far as it makes possible the establishment or continuation of productive enterprises.

In a word, the destruction of economic life which, notwithstanding illusory appearances of prosperity, had already mani-

fested itself to discerning eyes during the war, tended to promote progress toward a higher phase of capitalistic production, better organization, concentration of capital on the one side and on the other side organization, amelioration of conditions and augmented social power for the workers, and finally, the atomization and degradation of wide ranks of the middle classes. This shift had already been brought about by the war. It was not, however, until the collapse of the old system that the development was fully accomplished and the following new facts were brought into existence:

(1) The collapse of the old authoritative system in Germany had a direct effect upon industry, inasmuch as the employers in Germany, especially during the war, had been identical with the classes possessing governmental, and especially military, authority. This was particularly true of the munitions industry, where the employer and manager was at the same time the military superior of the workers, who were exempted from military service by reason of the fact that they were needed in the munitions works. The end of the war, therefore, meant a *débâcle* for the employer. This explains why the German workers could regard a severe national defeat as a victory, which they turned to account immediately in passionate agitation for higher wages, demands for a shorter working day, insistence upon the amelioration of working conditions *etc.*

(2) Not before the resumption of international commerce and the subsequent raising of the blockade did the rate of exchange become the central economic problem. German exchange had been overvalued throughout the war. The blockade, which necessitated a strict balance between imports and exports, the credits granted to Germany during the war and maturing with the end of the war, and finally the confident belief that the outcome of the war would not be unfavorable to Germany, all cooperated to maintain mark exchange at a rate not justified by the level of prices in Germany as compared with the prices in neutral countries. As proof of this statement the fact may be mentioned that during the war one could live more cheaply with German money in neutral countries than in Germany itself. The rate of mark exchange was so

high that the purchasing power of the mark was greater in foreign countries than at home. The rush of German exporters for foreign exchange, together with the psychological effects of Germany's collapse and the flight of capital, reversed this relationship. The mark fell so rapidly and so far that the currency of neutral countries obtained a higher purchasing power in Germany than at home. The American, who at present can exchange ten dollars for about one thousand marks, may buy considerably more with the one thousand marks than he could buy in the United States with his ten dollars, in spite of the steadily rising prices. This disparity leads to price-leveling and stimulates exports from Germany. As a result of the unfavorable conditions of exchange, wages are extremely low if reduced to their exchange value. The falling rates of exchange have counterbalanced or more than counterbalanced all the wage increases secured at the time of the collapse and subsequently, relatively large as those wage increases were.

Even though it will soon be a year and a half since the termination of hostilities, the tendencies outlined above, far from diminishing or reversing themselves, have only grown stronger. The labor crisis, the maturing of foreign credits, the difficulty of securing new credits, the drop in exchange rates, the urgent necessity of repairs that cannot be postponed and the scarcity of raw materials and coal—all these factors combine to bring about a situation in which more goods are consumed than can be produced. The inflation unavoidable during the war has but been aggravated. Surveying the whole of German economic life, one can find as yet no accumulation of capital, but only an accumulation of purchasing power. Nominal wealth increases and becomes ever more highly concentrated. In some instances, notably in the steel industry, the growth of wealth might proceed rapidly enough so that the real value of the capital stock might not be diminished and perhaps might even be somewhat increased. But, taking German economic life as a whole, it is still true today that wealth is diminishing. This process is promoted by the exchange situation. It could be checked only by the successful negotiation of foreign credits for Germany, since foreign credits, by

raising the exchange rates, would set a limit to the "clearance sale" now going on in Germany.

An intensification of this situation is produced by the obligations imposed upon the German people by the peace contract, as these obligations can be met, in the last analysis, only as exportation is stimulated. Since exports of goods, however, are not balanced in the ordinary way, they will not contribute to the rectification of mark exchange. But as long as this exchange situation exists, the outflow of capital from Germany will continue. It is by the export of capital and the sale of capital goods against foreign exchanges, which again will be turned into food and into raw materials, that the exhaustion of German economic life will proceed.

To be sure, the individual who sells capital goods or consumption goods to foreign countries, does so in order to realize a profit, and he personally will make a profit today, since the foreign exchange which he will receive, let us say in pounds sterling, will give him an extraordinarily large purchasing power in Germany, much larger than were he to sell his goods for marks. From a general viewpoint, however, this statement is but a different expression of the fact that the seller obtains a claim on the remaining stock of goods at home and may demand a share of those goods greater in value than what he sold abroad.

The economic condition of Germany as a whole will not be benefited thereby. The sale will have the effect of increasing inflation, especially if paid for in food, which may be a necessary import and condition of existence. As regards impoverishment, nothing will be changed by this "clearance sale". If selling out is advantageous to the sellers themselves, this fact proves merely that as a consequence of the selling process the concentration of the remaining capital is proceeding.

Capital, thus being concentrated in the manner which we have outlined, will gradually be transformed into paper, be it in the form of a pile of notes or of war loans. Furthermore, in so far as there is a transfer of shares to foreign countries, the profit of the seller will be due to higher quotations, which are but the reflex of the falling mark exchange. This is par-

ticularly in evidence where new shares, which are now issued in large numbers, replace the goods which have been exported, for these new securities merely create new purchasing power to finance the old enterprises and to furnish the means necessary to continue the struggle for markets under conditions of enhanced prices.

Hence, the longer such conditions endure, the more rapidly concentration proceeds. But the economic fund, the substance which concentrates, will continuously diminish. Inasmuch as German economic life, considered as a whole, becomes impoverished in its equipment of capital stocks, the enrichment of individuals will be but fictitious. This fact has long been obvious in the case of capitalists who possess notes, war loans, mortgages and, in short, securities payable in currency. Compared with ante-bellum values, these securities have depreciated 80 or 90 per cent. What concerns the owners of capital goods is that a continuation of this process will also diminish the real wealth of the groups taken as a whole. More and more, it becomes necessary for the upper classes to reduce their standard of living, to express in their own mode of life the impoverishment of the general economic life. This necessity is not altered by the accompanying phenomenon of the piling up of large fortunes in the hands of commercial groups.

At the other pole of society, the dislocation which began during the war is proceeding with similar inevitability. While wages rise, their real purchasing power declines. The groups of salaried employees and civil servants are most severely affected. In spite of considerable increases of salary, they have for a long time been unable to maintain their old standards of furniture, clothing, maintenance *etc.* Sooner or later all of these groups become proletarianized. This change will be accompanied by a breaking down of class distinctions as they exist in our minds at present. The more rapidly the wages of the workers are increased and the greater the political power of the workers becomes, the less does it matter to the civil servant whether he belongs to the middle class or not. He, too, now participates in trade-union organization and he, too, adheres to the teachings of socialism. It is only one step further

to the achievement of a unified economic-political front behind which all employees, whether private or public, whether hand-workers or brain-workers, will be arrayed.

Thus economic life during the war and in the transition period presents much the same social picture as Marx had predicted for the culminating point of capitalistic development, namely, the concentration of capital, on one side command over social wealth, and on the other side increasing misery, revolt, growing pressure, and a drift toward a classless society. There is this difference, however, that the catastrophe, that is the revolutionary situation, has not been brought about by the contradiction between the growth of productive forces and the receptivity of the market, but on the contrary, by the impoverishment, destruction and annihilation of productive forces during the war. And there is another significant difference, that we do not find, on the part of capital, an accumulation of real values which need only to be thrown into gear in order to pour out an abundance of consumers' goods. But rather we find in essence purchasing power, abstract wealth, which represents only command over the remaining productive forces in the country, the forces of labor. The meaning of capital as the power to command labor, as the potentiality for the creation of a working process, has now become manifest as never before.

The social transformation brought about by the war concerns Germany primarily, but it also reaches farther. The change of wealth into fictitious paper wealth in the form of claims held by ourselves against ourselves is connected, as has already been said, with the fact of the war, not with the defeat of Germany. Hence, a similar development will be found in all those states which could not develop their productive forces, notably in Italy and France. It is for this reason that these countries, particularly France, expected indemnities as a matter of course. There are, however, two sides to the question of indemnities. If on one hand they mean an enrichment of the victorious country, on the other hand they are bound to bring about a pressure on the labor market as well as on the commodity market. Just as the "clearance sale" is apt to give a delusive

impression of a boom, so also superabundant imports give the impression of a crisis. Numerous branches in industry will suffer, a pressure on wages will be felt, and the apprehension will arise that the indemnities are of dubious advantage, inasmuch as they enable the conquered country to find, by means of its forced exports, new markets, which it will retain after the indemnities have been paid. Thus, the victorious country may pay for the indemnities with a lasting injury to its own industry. For this reason there may develop, even amongst the victors, a powerful opposition to the enforcement of the peace treaty. In this connection, however, the economic forces set in motion by the war will develop to their full extent. The more so, since the exchange situation of the European countries as over against the United States will invite the same process of a "clearance sale" as that described in the case of Germany. In these other European countries, as in Germany, will appear the phenomena previously indicated: creation and concentration of paper wealth; a fictitious increase of wages and salaries; the formation of a community of interests among all employees of all shades and ranks; and, finally, a general impoverishment which, though forgotten in the ecstasy of victory, now asserts itself only too unmistakably.

The process of social evolution will take in the whole of Europe, although, to be sure, it will have least effect upon the victorious countries, in which the authority of the government and of the employers has been least violently shaken. In this manner, the social problem has become a world-historic problem. All the objects for which the war was waged, possession of land and acquisition of spheres of influence, have receded into the background. Each country is concerned with its own affairs and the social crisis is far from adjustment, no serious steps having been taken toward its solution.

Now at last we recognize the deeper meaning of the assertion that a modern industrial country cannot wage a prolonged war. How often have economists been sneered at because before the war they gave voice to this opinion, an opinion seemingly controverted by the apparently successful prosecution of the war. It is clear now that the war could be waged but at the price of

ruin. The dubious advantage possessed by an industrial as contrasted with an agricultural country is, in a word, the power to ruin itself. That, the agricultural country cannot do, because it cannot exhaust itself to the same extent. The industrial country can do it and has done it, alas, to an excessive degree. It has destroyed its wealth and, with its wealth, its social structure. This result is to be seen even in the victorious countries. If the obligations incurred by the protracted war had to be liquidated in a normal way by Italy, France and England, that is to say, if the loans which were taken up during the war had to be paid back, there would follow a train of ruinous consequences such as forced exports, reduction in the quantity of supplies available for domestic consumption, keen competition on the part of the creditor country (in this case, the United States of America). Furthermore, a liquidation or adjustment of the social changes which took place during the war will mean, in the victorious countries just as in Germany, that one must face the problem of substituting real values for paper fortunes. Such a substitution is possible only through a very extensive transfer of property by means of taxes on capital. It is a most difficult problem to handle, and the difficulty is all the greater since even in the victorious nations the social position of the workers has been substantially strengthened and consequently the liquidation of the war cannot be shifted as in past centuries to the broad shoulders of the masses through the agency of famine or of wholesale bankruptcies.

In this tragic situation of the European continent two possibilities appear: (1) A coalition for purposes of reconstruction may be formed by all those states which during the war became creditor nations. Among the creditor countries are included not only neutrals, such as the South-American countries to which France and Italy are indebted, but also all the nations victorious against Germany. A coalition of this nature must necessarily aim at either the liquidation of all obligations contracted during the war, or the postponement of their maturity to a much later date, when the productive forces, and particularly the supply of labor, have been replenished. Furthermore, the coalition will be obliged to open new credits, to

bridge over the lapse of time until the balance between production and consumption has been restored in the countries which participated in the war. This means nothing more than the abandonment of war gains, or at least the granting of a respite before payment. This renunciation would have to be the price of maintaining capitalism in European countries during the transition period, if indeed it be possible. Implied in the renunciation is recognition of the fact, that modern countries cannot wage prolonged wars without becoming insolvent, and, furthermore, that in these days of close-knit world enterprise, even countries which did not directly participate in the war must share in the evil consequences of war. Knowledge of this fact more than anything else would prevent wars in the future.

(2) In case no such action is taken for purposes of reconstruction, the poverty of the belligerent world will manifest itself in an acute and pitiless form. It is true that the impairment of working capital and of property by surplus consumption is not important if related to the whole economic system. However, the more marked the contrast becomes between productivity and consumption, the more serious any unnecessary consumption will become. The capitalist who does not consume the whole income of his enterprise but accumulates savings and hence participates in the formation of capital, performs a social function. Nevertheless, with the general impoverishment of economic life, his function will be misconstrued and social discontent will make it difficult to maintain the principle that the capitalist should be permitted to accumulate wealth without interference.

Finally, the less effectively the disparity between consumption and production is overcome, the more necessary will it be to fix a minimum maintenance for everybody. For that reason the establishment of a control over the whole system of production will be needed. Thus, socialization is the path of development for all those states which, having endured a long war, now find themselves compelled to get along with diminished productive forces. Socialization merely of productive goods with control of production and consumption will not alone suffice, without also control over labor and the increase of the most important

asset still remaining to the exhausted belligerents, namely the productivity of labor. This progress toward socialization cannot possibly be checked either in the defeated or in the victorious countries. It will proceed in an organic or in a revolutionary manner, with greater or smaller injuries, according to the enlightenment of the governments and propertied classes. It is the necessary consequence of the social evolution which, while producing a concentration of capital, failed to strengthen the social power of capitalism as a whole. Capitalism can scarcely survive the after-effects of the war. From this viewpoint, capitalism may be regarded as a peaceful economic system, which, because of its connection with feudal classes, overstrained its own forces and impelled itself into a most severe crisis.

Similar phenomena are to be discovered in the neutral countries (and economically the United States may be reckoned with the neutrals), though they did not develop there with the same intensity. In these countries the social crisis has been much less acute. Thus from the economic point of view the world may be divided into two hemispheres: the first consisting of the belligerent countries and confined by their depreciated currency to a very limited international intercourse, thrown back into autarchy, forced into a socializing process of rationalism and asceticism; and the second, comprising the neutral countries with fuller productive forces, with an increasing real income and an increasing capital equipment. However, expansion of the latter countries is hampered by the loss of former markets, so that the disturbance of world economy by the war affects them also. Either they must renounce the gains of the war and participate in the general losses, or else their industries will be under the necessity of looking for new markets. Either alternative will be followed by social transformations, the effects of which will be similar to, though weaker than, the changes which we have outlined for the belligerents. The whole world is thus shown to be one united territory in an economic sense. As a whole it has entered into a social evolution which human power may perhaps prove too weak to check.

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